

Message Text

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PAGE 01 BUENOS 01591 01 OF 02 101557Z

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SSO-00 NSCE-00 USIE-00 INRE-00

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PRS-01 SP-02 EB-07 AID-05 COME-00 TRSE-00 XMB-02

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC IMMEDIATE 4780

LIMITED OFFICIAL USE SECTION 1 OF 2 BUENOS AIRES 1591

E. O. 11652: N/A

TAGS: EGEN, EFIN, PINT, AR

SUBJECT: ECONOMY MINISTER MONDELLI'S SPEECH AND ECONOMIC PROGRAM;
CURRENT SITUATION

REF: BUENOS AIRES 1517

1. THIS CABLE OUTLINES FURTHER DETAILS MINISTER MONDELLI'S
SPEECH AND ECONOMIC PROGRAM AND PROVIDES UPDATE ON CURRENT
SITUATION.

2. MONDELLI'S SPEECH: INTRODUCTION:

IN LONG INTRODUCTION, MINISTER MONDELLI STRUCK KEYNOTE OF
WORK AND SACRIFICE. HE SAID ARGENTINA RICH COUNTRY BUT
PRODUCTION, SACRIFICE, ORDER AND HARMONY KEY INGREDIENTS FOR
ECONOMIC DEVELOPMENT. HE TOLD WORKERS IF REFORM NOT IMPLE-
MENTED BY THEIR GOVERNMENT, OTHERS WOULD DO SO IN MANNER NOT
FAVORING THEIR INTERESTS.

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PAGE 02 BUENOS 01591 01 OF 02 101557Z

3. REVIEW OF 1975: IN SECOND PORTION OF SPEECH, MONDELLI REVIEWED 1975 ECONOMIC DEVELOPMENTS PROVIDING SOME USEFUL NEW DATA. HE SAID GROSS DOMESTIC PRODUCT DECLINED 2 PERCENT. COMPONENTS INCLUDE CONSTRUCTION, -9.5 PERCENT, MANUFACTURING -3.2 PERCENT, AGRICULTURE -2.5 PERCENT AND SERVICES --. ON DEMAND SIDE, CONSUMPTION INCREASED 3 PERCENT, WHILE GROSS DOMESTIC INVESTMENT DOWN 16 PERCENT. MACHINERY AND EQUIPMENT INVESTMENT -20 PERCENT. PUBLIC SECTOR EMPLOYMENT UP 6.2 PERCENT.

4. REGARDING BALANCE OF PAYMENTS, MONDELLI SAID EXPORTS TOTALED \$3,000 MILLION, IMPORTS \$3,900 MILLION, LEAVING TRADE DEFICIT OF \$900 MILLION. TOTAL DEFICIT \$1095 MILLION. GROSS EXTERNAL RESERVES DECLINED FROM \$1411 MILLION AT END DECEMBER 1974 TO \$620 MILLION AT END 1975 ACCORDING TO MONDELLI.

5. NEW ECONOMIC PROGRAM. MONDELLI SAID NEW MEASURES REQUIRED AS INDICATED BY POOR 1975 PERFORMANCE. HE CONTINUED ONE PURPOSE NEW PROGRAM WAS TO AVOID EXTERNAL DEBT MORATORIUM IF POSSIBLE, AND IF NOT POSSIBLE, TO PUT ARGENTINA IN BEST POSITION FOR RAPID RECOVERY. IN VIEW SERIOUSNESS SITUATION, MONDELLI DECLARED COUNTRY IN STATE OF NATIONAL ECONOMIC EMERGENCY. FOLLOWING ARE KEY ASPECTS NEW ECONOMIC PROGRAM.

---INCOMES POLICY

KEY MEASURE IS 180 DAY SOCIAL TRUCE DURING WHICH NO SECTOR TO REQUEST MORE. 12 PERCENT WAGE INCREASES FOR ALL WORKERS DECLARED EFFECTIVE 3-1-76. CONGRESS TO APPROVE PROMPTLY INSTITUTE OF INCOME, PRODUCTIVITY AND PARTICIPATION. GOVERNMENT WILL REQUEST SUSPENSION - DURING 180 DAY TRUCE PERIOD - ALL COLLECTIVE BARGAINING AGREEMENT CLAUSES WHICH IMPLY PRODUCTION LOSSES IN PRACTICE.

--- PRICES

ITEMS IN CONSUMER BASKET WILL BE STRICTLY CONTROLLED. UNAUTHORIZED PRICE INCREASES WILL BE STRONGLY REPRESSED. LIMITED OFFICIAL USE

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PAGE 03 BUENOS 01591 01 OF 02 101557Z

STATE TO ESTABLISH PROFIT AND SALES MARGINS ACCORDING CONDITIONS OF ECONOMIC EMERGENCY. COMPANIES MUST ABSORB OFFICIAL RATE INCREASES, PLUS 50 PERCENT WAGE INCREASE EFFECTIVE MAR 1. UNAUTHORIZED SALARY INCREASES WILL NOT BE ALLOWED AS COST ELEMENT IN SETTING PRICES. FORMATION CONSUMER COOPERATIVES WILL BE INCOURAGED.

--- PUBLIC SECTOR

MAJOR NEW MEASURES INCLUDE: REDUCTION CURRENT EXPENDITURES TO MINIMUM LEVEL, FREEZE ON NEW PUBLIC SECTOR HIRING; RE-ESTABLISHMENT APPROPRIATE TAX BURDEN THROUGH LAWS ALREADY PRESENTED CONGRESS AND ADDITIONAL EMERGENCY TAXES UNDER STUDY, REDUCTION TAX EVASION, INDEXATION ALL DEBTS OWED STATE TO ELIMINATE INFLATION LOSSES AND RATE INCREASE FOR PUBLIC GOODS AND SERVICES.

--- PUBLIC SERVICE RATE INCREASES

INCREASE REFERRED TO ABOVE IMPLEMENTED IN SERIES NEW RESOLUTIONS AS FOLLOWS. REGULAR GAS 15.50 TO 28 PESOS PER LITER, PLUS 81 PERCENT; SPECIAL GAS 17.50 TO 31 PESOS PER LITER, PLUS 77 PERCENT; KEROSENE 4 TO 16 PESOS PER LITER, PLUS 300 PERCENT; GAS/OIL 4.80 TO 16 PESOS PER LITER, PLUS 233 PERCENT; TELEPHONE SERVICES INCREASED 70 PERCENT AS OF MAR 1; ELECTRIC BILLS INCREASED 80 PERCENT RETROACTIVE TO JAN 1, PLUS 6 PERCENT MONTHLY THEREAFTER; GAS SERVICES INCREASED 60 PERCENT AS OF MAR 1; URBAN TRAIN SERVICES INCREASED 150 PERCENT WITH INTERCITY TRAIN SERVICES INCREASED 106-120 PERCENT; DOMESTIC AIR FARES INCREASED 80 PERCENT; SHIPPING SERVICES INCREASED 60-110 PERCENT; POSTAL SERVICES UP 100 PERCENT.

--- EXTERNAL SECTOR

MAJOR NEW MEASURES AS FOLLOWS: TWO LEGAL EXCHANGE RATES ESTABLISHED. OFFICIAL RATE SET AT 140 PESOS PER DOLLAR TO INCLUDE ALL TRANSACTIONS PREVIOUSLY TRANSACTED AT "NORMAL FINANCIAL" AND "SPECIAL FINANCIAL" RATE (I.E. EXPORTS, IMPORTS, LOANS AND INTEREST; EXPORT AND IMPORT FREIGHT AND INSURANCE). EXPORT TAXES RAISED AND SUBSIDIES LIMITED OFFICIAL USE

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PAGE 04 BUENOS 01591 01 OF 02 101557Z

REDUCED SO NET EFFECTIVE RATE TO EXPORTER INCREASED ABOUT 5 PERCENT. EXPORT TAXES NOW RUN FROM 3 TO 56 PERCENT (PREVIOUSLY 0-40 PERCENT) AND EXPORT SUBSIDIES FROM 0-17 PERCENT (PREVIOUSLY 0-35 PERCENT). SECOND, SO-CALLED FREE MARKET RATE INCLUDES ALL OTHER ITEMS NOT TRANSACTED AT OFFICIAL RATE SUCH AS TOURISM, TRAVEL EXPENSES, PROFIT AND ROYALTY REMITTANCES ETC. EXPORTERS MAY CONTINUE SELL 3 PERCENT F.O.B. EXPORT VALUE AT FREE MARKET RATE.

FOREIGN EXCHANGE INSURANCE SYSTEM FOR IMPORTS ELIMINATED, BUT IMPORTERS ALLOWED HOLD ADJUSTABLE BONDS IN PORTFOLIO AS SUBSTITUTE. PREVIOUS PRIOR IMPORT DEPOSIT SYSTEM RE-ESTABLISHED, I.E. 40 PERCENT PRIOR DEPOSIT REQUIRED ALL IMPORTS EXCEPT CAPITAL GOODS AND THOSE FOR PUBLIC SECTOR (SEE B.A. 157 PARA 3). SPECIAL DOMESTIC CREDIT FACILITIES

FOR SWAPS ELIMINATED. STATE TO RIGOROUSLY CONTROL IMPORT PERMITS AS WELL AS ITS OWN IMPORTS. RESTRICTIONS ON FUEL AND ENERGY USE WILL BE IMPLEMENTED AS NECESSARY. EXPORT SUSPENSIONS WILL BE REVIEWED, AND NEW EXPORT QUOTAS ESTABLISHED AS APPROPRIATE. CONTRABAND, SPECULATION, AND OTHER ILLEGAL FOREIGN EXCHANGE ACTIVITIES TO BE RUTHLESSLY SUPPRESSED. STATE TO INTERVENE IN INTERNAL AND EXTERNAL COMMERCE AS NECESSARY. NEW EXTERNAL BORROWING BY PUBLIC SECTOR TO BE TIGHTLY CONTROLLED. ARGENTINA TO NEGOTIATE WITH DIGNITY WITH ALL SOURCES INTERNATIONAL FINANCE.

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PAGE 01 BUENOS 01591 02 OF 02 101546Z

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LIMITED OFFICIAL USE SECTION 2 OF 2 BUENOS AIRES 1591

--- SAVINGS PROMOTION.

MAJOR ITEMS AS FOLLOWS: RESOLUTION REGULATING FOREIGN INVESTMENT LAW WILL BE MODIFIED TO ATTRACT FOREIGN SAVINGS; NEW SAVINGS SYSTEM TO BE IMPLEMENTED TO PROMOTE HOUSING DEVELOPMENT; MEASURES WILL BE TAKEN TO PROMOTE RETURN TO PRIVATE SECTOR OF FIRMS AND INDUSTRIES TAKEN OVER BY STATE. TO ACCOMPLISH THIS, USE OF COOPERATIVES

AND WORKER PARTICIPATION WILL BE CLOSELY EXAMINED.

6. SINCE ANNOUNCEMENT OF PLAN, CGT LABOR UNIONS HAVE BEEN MEETING AT HIGHEST LEVELS TO WORK OUT STRATEGY. STRIKES AND LABOR AGITATION WIDESPREAD IN SEVERAL AREAS WITH LABOR BASES REPORTEDLY RESISTING PROGRAM. ACCORDING THIS MORNING'S PRESS (MAR 10) MODIFICATIONS IN PLAN, INCLUDING HIGHER SALARY INCREASE, HAVE NOW BEEN AGREED BETWEEN GOVERNMENT AND LABOR AND ARE SCHEDULED FOR ANNOUNCEMENT THIS AFTERNOON. MONDELLI UNDER FIRE FOR ALLEGEDLY REVIEWING ECONOMIC PROGRAM WITH IMF BEFORE LIMITED OFFICIAL USE

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PAGE 02 BUENOS 01591 02 OF 02 101546Z

PRESENTING IT CABINET OR CONGRESS. MONDELLI ALSO HAVING DENY RUMORS THAT ZALDUENDO MISSION TO IMF EMPOWERED NEGOTIATE FULL IMF STANDBY IF POSSIBLE. ACCORDING MONDELLI, THAT MISSION ONLY DISCUSSING COMPENSATORY FINANCE FACILITY, OIL FACILITY AND FIRST TRANCHE.

7. POLITICAL IMPACT: ISSUANCE OF MONDELLI'S PROGRAM MAY DELAY WHAT HAD BEEN REGARDED AS IMMINENT MILITARY COUP. AT VERY LEAST, MILITARY WILL PROBABLY WANT TO SEE HOW LABOR WILL REACT TO PROGRAM BEFORE THEY MAKE ANY FURTHER MOVES.
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